Cost and Management

VOL. XXVIII SEPTEMBER No. 8

Mr. Kasper is Budget Director and Assistant to Executive Vice-President of the Square D. Company, Detroit, Mich. A graduate of the University of Detroit in Business Administration, Mr. Kasper has been with the Square D Company for nine years. An active member of the National Association of Cost Accountants, he has served as Director of the Detroit Chapter, appearing as speaker at a number of other Chapters, and having had two manuscripts published in the N.A.C.A. Bulletin. He is also a member of the Accounting and Financial Committee for the Society of Plastics, and of the National Electric Manufacturers' Association. He was recently the principal speaker at the University of Michigan Industrial Relations Conference.

A resident of Toronto, Mr. Richardson is Financial Manager of the Apparatus Division of Canadian General Electric. After some experience in banking, he joined the C.G.E. Company fourteen years ago. He has established two new plants with their accounting and standard cost systems for the company, and recently he has worked on the reorganization of the Apparatus Division in connection with the Company's decentralization scheme.

Vice-President of the Chattahoochee Valley Chapter of the National Association of Cost Accountants, Mr. Lambert has been in the accounting profession since the age of 18. He is presently Controller of the Housing Authority of the City of Columbus, Georgia. After studying at West Georgia College and Emory University, Atlanta, Mr. Lambert was with the America Fore Insurance Group, Rich's Inc., and Delta - C. & S. Airlines. During the war he served in the U.S. Maritime Service and the Merchant Marine, and later received his commission at New London, Connecticut. In 1947 he was employed by the Housing Authority as Chief Accountant. He was elected Secretary-Treasurer last year. At present, Mr. Lambert is also furthering studies in Law.

REGULAR DEPARTMENTS

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Editorial Comment . . .

What About Business?

One of the well known bogies in the public mind is that of big business. The caricatured figure of the corporation octopus staggering under a load of gold, which has been ruthlessly extracted from the public and its employees is familiar to all. It is an extremely popular theme in certain quarters to refer to business men as reactionaries. Trade associations are thought to be a sort of business bureaucracy based on feudal principles of self protection.

When you stop to think about it perhaps it is not so amazing that such a vast misconception exists about business. As one writer recently said in recognition of the state of business as the public sees it . . .

"No voice of business is authentic unless it is dynamic and dramatic. Undue conservatism by unimaginative accountants and stolid lawyers distorts public understanding, for it conceals the essential progressiveness of a system based on the utilization of creative minds in science, invention, finance, and engineering."

How much has the accounting profession contributed to this undue conservatism and sea of misunderstanding? No doubt some of the misconceptions stem from our conservative presentation of financial results.

What about profits?

It is a fact that profits have increased substantially in the last few years. Corporation profits after taxation, have increased 150% since 1939. In the same period payrolls were increased 281%. Despite the great increase in production and investments, profits did not rise in the same proportion as wages and salaries. The number of companies reporting on taxes and profits to the Dominion Government were twice as many in 1951 as in 1939. Total profits are up but spread over many companies.

Recently in labour negotiations, a large union asked a corporation to pay out of profits, if it could not pay out of operating income. This brings up the nature of profits. Accountants and business men are thoroughly familiar with the fact that if dividends are withheld and used to increase wages, the compensation to employees will have increased only slightly, and those who have invested their savings will receive nothing. If retained earnings are used for a wage increase, the ability of corporations to provide new equipment, tools and facilities for expansion will have been lost. Profits then, have simply a two way relationship of rewarding the risk capital put into business by shareholders and to keep the business a potential going concern. A well known economic fact of today is that external risk capital is not too available. Most new rich capital for expansion is coming, not from shareholders, but from retained profits. Business health is as simple a

proposition as personal health, a question of survival. Survival of any particular corporation, means job security, about which we hear so much, for its employees.

How many accountants attempt to point up the purpose of profits with sufficient emphasis in their published statements?

The misconceptions surrounding the subject of costs are very widespread. How many people in the street understand the nature and real cost of the wasting away of facilities or depreciation? How many think that sales and advertising expenses are necessary in order to get the goods into the hands of the consumer?

All of these matters relating to profits, costs, surplus, risk capital, and the relationships between them are the accountant's particular field. He should feel a special responsibility to see that they are clearly understood. The newspapers and public journals show each year the financial statements of many of our corporations. The vast sums herein disclosed in a neat double row are perfectly intelligible to the accountant, but are they equally as clear to the average reader? Perhaps we need more explanation in dramatic form. Many companies provide excellent pictorial and statistical representations of their financial statements each year. However, these usually end up in the hands of the shareholders and any interested businessmen. In attempting to give a careful, cautious, and conservative approach are we not falling into a trap? A trap of misunderstanding as well as confusion.

A published financial statement is not only the mechanical result of accounting technique. It is, or can be, a commentary on the free enterprise system. The success shown there is in part only, a reflection of managerial acumen. It is a representation of public approval. The customer exercises the final sanction in business. The flexibility and individuality he exhibits in selecting goods and services is part of the democratic philosophy, which essentially means the creation of opportunity and the right to pick and choose.

The accounting profession should think rather seriously about its traditional conservative attitude. It is our job to make the position of business clear; to make profits into a clean, shining word; to dramatically explain and define the affairs of finance.

OBITUARY

With great regret we announce the death of H. E. Clayton, C.A., R.I.A., of Toronto. Mr. Clayton held the position of Controller with the Tip Top Tailors Company.

Long an active member of the Society, Mr. Clayton was the immediate past president of the Toronto Chapter, and was formerly a member of the Ontario Council and of the Ontario Educational Committee. He will be particularly missed by the Toronto Chapter and by the S.I.C.A. of Ontario.

C & M Round-Up . . .

By N. R. Barfoot, R.I.A.

(Steelways)

Steel

Historians in the future will describe this era in many and varied terms. One of the more apt is the Iron Age.

Did you know that in 1920 per capita production of steel in the U.S. was 886 pounds? By 1940 the figure had risen to 1,015 pounds and in 1953, 1,398 pounds.

The automotive industry used 7.3 million tons of steel in 1940. In 1953, 14.7 million tons.

Thirteen years ago the construction industry used 5 million tons of steel. Today the figure is 10.3.

Railways now use nearly 5 million tons a year. Containers are up over 6 million tons, machine tools 4.3 million tons, agricultural implements 1.2 million tons.

Electrical steel shipments for use in power equipment has risen from 306,000 tons in 1946 to 820,000 tons in 1953.

Medical Check-ups and Executives

Has your company a plan for this? These are a few points and suggestions gleaned from a few companies who show better than average interest in the matter.

The typical age group is 40 and up.

Abnormalities are usually of the degenerative type — defective vision, obesity, heart disease, and high blood pressure.

Most plans are on a voluntary basis and absolutely confidential.

Policies on frequency of examination vary — the typical programme offers annual examination to all executives regardless of age or health status. One plan provides for an examination every 3 years for those under 30, and every 2 years from 30 to 40, annual from 40 to 60, and semi-annual from then on.

Another plan uses the frequency of sick leaves as the criterion for check-up frequency.

Some of the larger clinics have become interested in doing this sort of check-up work which tends to promote a desired degree of uniform high calibre examination technique.

(Financial Post)

Do You Buy Stocks and Bonds?

A recent survey shows the following results which may be some assessment of the potential market for stock selling.

55% of the total population of Canada has never bought any stocks or bonds.

82% had never bought any stocks.

64% had never bought any bonds.

Of the 55% who never invested, 59% were in the lowest income group, 29% in the middle group, and 12% in the upper income group.

Highest proportion of non-buyers were in the Maritimes, lowest in the Prairies.

Of the 45% of people who bought stocks and bonds at some time, 86% were sure they would invest again, or were still investors.

Most surveys show that money problems rank highest in human problems, yet no formal instruction is given in high schools on budgetting, investing the proper amount of cash, surplus to actual needs, and proper standards of living. 78% of people asked, thought it a good idea to have such a course.

Capital Spending

Here is the breakdown of the midsummer forecast of capital expenditures by business, industry, and government in 1954 compared with 1953 and 1949:

	$ Millions		
	1954	1953	1949
Utilities	1,230	1,168	678
Housing	1,124	1,086	768
Manufacturing	855	940	536
Government departments	809	789	403
Agriculture and fishing	469	537	419
Institutional services	379	301	190
Trade, wholesale and retail	354	285	193
Mining, quarrying, oil wells	319	280	122
Finance, insurance, real estate	118	77	33
Commercial services	91	118	68
Constructional industry	46	63	55
Forestry	32	35	26
Total	5,826	5,679	3,491

Department Store Economics

These are the 1953 figures on costs and profits of department stores as issued by the Canadian Retail Federation.

Average net profit 4.54% of net sales.
Gross margin 33.51% of net sales.
Publicity cost 4% of net sales, of this 2.6% went to newspapers.
Buying expenses amounted to 3.19%.
Administrative costs were 6.77%.
Selling expenses other than publicity, 10.98%.
Pay rolls were 18.51%, of this sales pay roll was 7.3%.

Other interesting data showed that:

Average returns amounted to 5.77% of sales.
Stock turnover, 3.65%.
Year ending inventory, 21.13% of sales.
Net sales per square foot of selling space, $76.22.

The Textile Industry

Very much in the news these days are the problems of the textile industry. For those who are interested here are a few facts on our national industry:

Normal employment in the primary industry is 100,000.

Wages and salaries total 200 millions per year.

Gross value of production 850 millions per year.

Total output per annum of primary and secondary, on clothing industry equals 1,600 millions. This compares to 1,200 millions per annum in the giant pulp and paper industry.

Total number of looms in place — 30,336. Cotton, 19,651; wool, 2,717, and synthetic, 7,968.

Total number of spindles in place, 1,577.

Investments in the industry from 1946-1954, 500 million in primary textile and 426 million in the secondary section.

The current condition of the trade shows about 21,450 workers off work or about 1/5 of the total normal employment.

Foreign imports undoubtedly affect the situation, since labour is a large part of the cost dollar and most foreign producers except the U.S. are operating on a 60 to 90% labour cost advantage.

Large production runs possible in the U.S. don't help the import situation since residual stocks can be sold off at prime cost or less in this country. One per cent of a U.S. manufacturer's output thus treated equals 10% or better in a Canadian mill.

PERSONALS

Andre-J. Dolbec, C.A., C.G.A., R.I.A., former director of the Quebec Chapter and former provincial auditor of Quebec, has been named Chairman of the Senior Board of Commerce (Quebec City Division).

R. E. Wodehouse, R.I.A., has been promoted to the position of Internal Auditor of Dominion Foundries and Steel Company. He is a member of the Hamilton Chapter.

A. H. Murcott has been appointed Controller of Dominion Automobile Association. He is a student member of the London Chapter.

Georges Demers has been named Chairman of the Association of Professional Engineers. He is a member of the Quebec Chapter of the Society.

Ronald S. Holman, R.I.A., has joined the National Paper Goods Company Ltd., as Office Manager and Accountant. A member of the Hamilton Chapter, Mr. Holman was formerly with the Steel Company of Canada.

Books in Review . . .

BUSINESS STATISTICS

***by J. R. Riggleman and I. N. Frisbee; published by McGraw-Hill Book Company Inc., New York,* 1951. *3rd edition. Pp.* 818, $6.00.**

Reviewed by N. R. Barfoot, R.I.A.

The use of statistics in business is widespread. In fact, who can imagine any sort of concern, either single ownership or big corporation operating without at least an elementary application of statistics.

Here is a book which although pointed to college business courses, should be of interest to all business men and accountants. Large sections are devoted to the economics of statistical science but a surprising amount of space is given to such subjects as business forecasting, budgeting, production, labour and purchasing power and population.

Perhaps not many laymen will want to go through the portions specifically dealing with the theory of statistics. However, it is of more than casual interest to follow in the path of the professional statistician and to learn something of the business of sampling, calculation and tabulation of data, and business cycles.

One cannot help being impressed with the keen analytical work and enormous progress that has been made in this newer art.

The sections dealing with forecasting and budgeting should be of great interest to accountants, who must of necessity use the tools of the statistician, in order to correctly set up the targets or standards for determination of future income.

Marketing analysis which has become obviously the important factor in determining what, when, where, and how, goods should be marketed, is treated at some length and should be interesting to sales managers not presently employing statistical assistance.

The chapter on population and purchasing power includes a specific application of a well known large corporation to a purchasing power index for its products. The book has many such illustrations from actual field experience, which certainly lends validity to the general proposition that statistical work is a less abstract study than one may think.

The final section is devoted to the uses of statistical analyses and methods in effecting control over each department of a business. It demonstrates the way in which statistical control can improve business management and where it fits in the organization.

The accountant will see that outside of the relative rigidity of the double entry system, much of his work, such as cost analyses, operating reports, and budgets, use the statistical approach as well as the financial.

This book should be in every business library. Those who are professionally engaged in statistical work, will of course, make much use of it. It will also be used by those accountants, sales managers, pro-

duction men, and business men who wish to read and apply the principles in certain portions which relate to their individual work.

CASES IN MANAGEMENT

by Henry M. Cruickshank, M.B.A., and Keith Davis, M.B.A., Ph.D.
Richard D. Irwin, Inc., 1954. *Pp.* 221, $3.25.

Reviewed by MARY DRAPER, B.A.

"To provide teachers, students, and practicing managers with practical cases for use in learning basic management subjects such as personnel management, production and industrial management, industrial relations organization and management policy-making." Thus the two authors of this readable little casebook on management state their purpose in writing it. They go on to explain their choice of the case-method for study of management methods; "Experience has shown that case problems bring reality to these subjects, improve the students' analytical ability and increase his learning. Case problems also stimulate the student's interest in more knowledge about management."

Covering a wide field of problems faced every day by management men, both of a technical and human relations nature, this book can be commended for its easy readability, and for its escape from the purely factual and theoretical study of management. The authors have well achieved their intention to make the subject real. Like all real problems, too, the cases presented in this book have no absolutely correct solution. Far from dogmatic, the authors make it quite clear that they have not raised all the possible questions in each case, nor provided all the possible answers. This, as the reader will agree, is beyond the capabilities of any writer or any manager.

What results is a useful, straightforward casebook, for all who are interested in management and its problems. The book is divided into general classifications including Planning and Policy-making, Organizing, Controlling, Layout and Construction, Maintenance, Materials Handling, Research, Working Conditions, Time and Motion Study, Inventory, Personnel Management, Supervision and Human Relations, Training, Employment, Labour Relations and a number of other headings.

The book is carefully cross-indexed with sixteen other well-known management books, showing which cases and chapters in this book correspond with other texts. It contains an alphabetical index of cases by company, and by subjects, making it a useful reference guide.

In all some 91 cases are outlined and solutions given. They vary from problems in plant organization, control and maintenance, to personnel problems, communications and public relations. Broad in its scope, clear and concise in its language, this book makes interesting reading, both for the layman and the professional management man.

Profit Assurance Through Cost Reduction . . .

By ANTHONY A. KASPER,
Budget Director and Assistant to Executive Vice-President, Square D Company, Detroit, Mich.

With the return to a more competitive economy, financial executives are sharpening their tools for cost control and cost reduction. The author draws on the experience of his firm in attacking the problem through the medium of forecasts and integrating budgets.

THE return to normalcy or the frequently used expression, "the competitive era" is now with us. The return to a competitive economy has created a host of problems: intensified competition, softening price structures, increased distribution and selling costs, and rising labour and overhead costs.

Complicating the problem with ever-increasing emphasis is the ominous spectre of rising breakeven points, created by constantly expanded facilities that were constructed in some cases to reduce peak backlogs which are now returning to normal size. This has also created a problem of maintaining profitable volume levels for sales and production.

A first-hand impression of this problem may be obtained by computing the breakeven position of the company and determining the effect on costs and earnings if a 10% loss in volume is realized. The answer is one that causes many executives sleepless nights. The more fortunate organizations are those that have anticipated competitive conditions and have well prepared plans to combat them.

In a competitive economy as we are in now, the pattern takes on a familiar cycle. Companies that are not too well fortified for extreme competitive conditions are facing a problem of diminishing sales. This creates a chain reaction after a relatively short period of time which crystallizes into a painful realization that costs are lagging too far behind volume declines. One of several alternatives is used; a natural one to try first is to cut prices. This presumably would bolster up sagging volume. Unfortunately, this move is never up to expectations. The next step is to slash costs. At this stage of operations, time is of the essence; hence there is little time for a careful appraisal of how, when and where costs can be reduced. Instead, a dictatorship type of ruthless cost reduction is resorted to, which calls for immediate and drastic action. The end result ultimately is impairment of vital functions and undermining the morale of the organization. Unfortunately, this program creates results which are not lasting in duration and eventually this type of sporadic cost reduction must be resorted to once again.

Most industrial executives will heartily agree that the action outlined above is not a satisfactory solution to assure profitable operation in a competitive economy.

Forecasts and Budgets

The writer submits that a program of forecasts and integrated budgets is not necessarily a panacea that will serve as a solution of your operating problems. However, we do believe that a careful use of these two important tools, forecasts and budgets, will multiply the potential benefits that are inherent for cost control and cost reduction.

This paper, for the sake of brevity, assumes several premises:

1. That most well organized companies do have some system of forecasts.
2. In conjunction with forecasts, a system of operating budgets is prepared.

In Square D Company, the manufacture of electrical distribution equipment, motor and mill control, regulator switches, panels, and control centers covers thousands of standard catalogue items as well as special items made to customer specifications.

The annual forecast at Square D Company as developed stems from the effort at three levels of management:

1. *Compilation of annual sales estimates* of field offices and regions.
2. *Review of consolidated sales estimates* by headquarters sales specialists who make necessary revisions to give effect to scheduled introduction of new lines of products and obsolescence or dropping of other lines.
3. *Review of overall forecast* by management committee in relation to overall economic conditions and their possible effect on our business. At this point, the forecast may be tempered by the judgment of the committee for the purpose of projecting a sound operating objective.

The approved forecast of sales volume for the year ahead is then submitted to the budget staff for determination of operating costs required to support projected sales volume.

At this point the annual forecast is adjusted on a monthly basis to follow seasonal trends that are characteristic of our business. From seasonally-adjusted sales levels, the various levels of shop operations in the operating divisions can be determined and operating budgets for each element of cost are established. The budgets developed are summarized and integrated into an overall financial forecast.

An Appraisal of the Future

We now have an overall prediction of results from operations. From careful review of this forecast, a sound appraisal of the future is determined and management is now in a position to determine:

a. Trend in product costs by their various elements, material, labour, and overhead.
b. Gross profit structure by product line.
c. Trend of selling and distribution costs.
d. Trend of administrative costs.

e. Projected rate of earnings.
f. Earnings available for capital investment, tooling for new products, plans for entering into new markets, new products, etc.
g. Projected breakeven position.

The predetermination of overall results from operations in detail for a year in advance *provides the springboard from which the program of cost reduction is developed.* Careful review of each area of operations will readily indicate the opportunities for cost reduction and improvement of cost control. This is the point where definite plans can be carefully prepared in advance and followed through for attainment.

In our company the specific procedure followed is as follows:

ONE

As a by-product of sales forecasting, a tabulation of the "best sellers" in the product line is prepared, indicating the items representing the principal volume producers.

a. Profit contribution of each product is reviewed.
b. All items that are marginal with respect to profit margin are reviewed and detailed costs are prepared and price structure reviewed.
c. On the basis of analysis prepared, definite cost reduction programmes are prepared for specific products, which have as their objective a definite cost reduction in the area of material, labour or overhead cost, which will restore a satisfactory margin subject to the following conditions:
   (1) Relative volume of product in relation to overall company business.
   (2) Expenditure required to accomplish objective (tooling, redesign of product, facilities, etc.
   (3) Period of time to recover expenditure.
   (4) Review of product to determine whether major design changes or obsolescence is pending.
d. In this area considerable success was obtained in cost reduction by observance of the above technique. Many reductions were made in product costs through:
   (1) Design changes or improvements.
   (2) Re-engineering of production facilities.
   (3) Improvement in tooling.

In one division of our operations, not identified for obvious reasons, expenditures of $52,000 reduced product costs on an annual basis $125,000.

TWO

Careful review of another phase of operations focussed attention on upward trend of distribution and selling costs, which embrace shipping, warehousing, freight, direct selling and sales promotion costs.

The examination disclosed many opportunities and as a result cost reduction programmes in the following areas were initiated:

a. A series of package engineering projects which entailed no substantial expenditures except for services of the package engineering staff. These projects were in the nature of redesign of packaging and crating. The results in one division were excellent: annual savings for one year of $61,000.

b. In the distribution and warehousing operations, the indicated upward trend in material handling costs was responsible for initiation of several projects including re-design of facilities (palletization, lift trucks, revision of floor layout). In one division only, investment was $20,000; annual cost reduction, $48,000.

c. An important element of cost in our business is outbound freight expense. Our forecast indicated an increase in costs in relationship to our shipment volume. Several projects were initiated which entailed the following objectives:
   (1) Research and study which covered reclassification of products and resulted in lower freight rate classifications.
   (2) Change in sales policy to permit pooling of minimum weight shipments.
   (3) Annual results in one operating unit — no investment, cost reduction: $32,000 annually.

d. In the area of selling and promotion costs no tangible reductions were made, but greater utilization was attained through emphasis and concentration of sales effort in areas that required further attention to develop and maintain a balanced mix of product sales that is compatible with facilities available.

e. In the area of manufacturing overhead, there are numerous opportunities pointed up by projection of operating budgets. Projects in this category afforded reduction in costs through
   (1) Methods simplification — indirect labour reductions.
   (2) Revision of supervisory organization.
   (3) Specific program for maintenance program reduction through more effective preventive maintenance.
   (4) Intensified control of manufacturing scrap.

The cost reductions and opportunities for improved cost control outlined above represent some of the tangible benefits derived through a more diligent and intensive use of forecasts and budgets. Other desirable features are the ability to plan in greater detail for additional facilities and tooling, and at the same time perform constructive and corrective action which will assist in checking the upward trend in breakeven position.

Plan of Control

The program thus far has indicated what can be accomplished through greater use of forecasts and budgets in implementing a program of cost reduction. Right at this point, we would like to emphasize that

in a program of this nature the projected overall results of operation were predicated on *costs that were attainable through sound budgetary control.* A sound plan of control will embody these basic principles:

a. Careful preparation of budget objectives in collaboration with supervision responsible for control of the costs.
b. Agreement as to attainability of objectives.
c. The whole-hearted support of top management in the enforcement of budget objectives; and
d. Last, but most important, some incentive to offer tangible recognition of a job well done. (For further details of our budget control system, see N.A.C.A. Bulletin, December 1951 issue).

With a sound system of budgetary control integrated into overall financial forecasts, the opportunities for cost reduction are only limited by the vision, initiative, and resourcefulness of your organization. However, the effectiveness of a continuous cost reduction programme is dependent to some extent upon how well your company is organized to do the job.

At Square D Company, we mentioned in an earlier paragraph that the final review of overall forecast of results of operations gave some indication of the broad areas wherein cost reductions are possible. At this point by directive of management committee, a subordinate committee called the Project Committee reviews specific items and specific costs. Those items that are promising are subject to further review and research by cost reduction engineering staff. The cost reduction engineering staff submits the results to the Project Committee. A final review and screening by Project Committee results in a formal recommendation of a series of projects. The list of projects is developed on the basis of priority and other criteria used to appraise the relative merits of each item recommended.

The recommendations of the committee are in very simple form, as indicated by Exhibit A attached. This is submittted to top management for tentative approval as a proposed program. When the program as submitted and later revised has been given tentative approval, the following action is taken as each item is initiated:

1. A formal project request is initiated for a specific item on the approved program. This request, which is self-explanatory, is initiated by our cost reduction engineering staff (Exhibit B).
2. Along with this form, a second sheet is prepared, Exhibit C, which indicates in detail the how and where of our cost reduction objective.
3. A brief letter of transmittal is also prepared covering any pertinent points that may require elaboration or that may assist in giving a complete background of the project requested.
4. The completed forms, Exhibits B and C, and the letter are forwarded for required approval and after approval copies are

EXHIBIT A

PLANT No. 2

SUMMARY OF PROPOSED COST REDUCTION PROJECTS — YEAR ....

Cost Reduction	TOTAL AMOUNT	ESTIMATED SAVINGS
1. Contingency for Miscellaneous Cost Reduction (Methods Simplification)	$ 10,000.00	$ 40,000.00
2. Re-engineer Assembly Tracks	5,000.00)	
(a) Provide Racks	4,000.00)	
(b) Provide Transtacker	3,500.00)	15,000.00
(c) Provide Walkalong for DS-50	2,400.00)	
3. Replace Paint Line Conveyor in DS-150	6,000.00	
4. Establish Central Stores Balcony and First Floor Re-engineering Receiving and Stores	5,000.00)	9,000.00
(a) Establish 331 Sub-Assembly	2,500.00)	
(b) Re-engineer and combine 322 with 327		
5. Assembly Tracks	1,000.00	500.00
6. Re-engineer AN-1 to Relieve Congestion	1,500.00	2,500.00
7. Provide Racks and Re-arrange	1,000.00	1,500.00
8. Provide Gun Welding Equipment	6,000.00	10,000.00
9. Increase Storage Space	13,000.00	22,000.00
10. Dial Type Automatic Base Spray Machine	2,100.00	5,100.00
11. Heat Seal Labels — (Tools)	1,775.00	11,000.00
12. Tooling — Resistor (Project Approved)	1,000.00	1,150.00
13. Tooling — (Project Approved)	1,475.00	6,300.00
14. Tooling — Panel (AX-1)	1,600.00	4,500.00
15. Tooling to Bend Levers (AX-1) to Avoid Purchase of New Power Bender	350.00	1,010.00
16. Tools for Machining of Escutcheon Plate (AX-1)	1,000.00	1,200.00
17. Equipment to Chrome Plate Taps — Other Small Tools (AX-2)	1,000.00	2,400.00
18. U.S. Multi-Slide Machine ($9,000.00 Tooling) (Actual machine load will be 1,750 hours per year releasing two 15 ton presses equivalent of two shifts per day)	30,000.00	14,000.00
TOTAL	$102,200.00	$147,160.00

ANTICIPATED EXPENDITURE BY QUARTERLY PERIODS

First	$ 22,200.00
Second	40,000.00
Third	25,000.00
Fourth	15,000.00
TOTAL	$102,200.00

EXHIBIT B

DIVISION____________ | **SQUARE D COMPANY** | PROJECT NUMBER____________
DEPARTMENT____________ | **PROJECT EXPENDITURE REQUEST AND RECORD** | CLASS AND ITEM____________

TITLE AND BRIEF DESCRIPTION OF PROPOSAL: (Itemized detail to be attached)

OBJECTIVE:

BASIS OF DETERMINING OBJECTIVE (See SPB 312.2)

Estimated by

ACTUAL RESULTS:

COMPARE TO OBJECTIVE:

Reported by

ORIGINAL ESTIMATE

Capital	Expense	Total

EST. COMPLETION DATE—

Authorization and Approval — Date

SPONSOR____________ ________
OTHER RQ'D____________ ________
DEP'T HEAD____________ ________
GEN. MGR.____________ ________

REVISED ESTIMATE

Capital	Expense	Total

REVISED COMPLETION DATE—

Authorization and Approval — Date

SPONSOR____________ ________
OTHER RQ'D____________ ________
DEP'T HEAD____________ ________
GEN. MGR.____________ ________

ACTUAL EXPENDITURES COMPLETED PROJECT

CAPITAL		
EXPENSE		
TOTAL		

ACTUAL COMPLETED DATE

EXPLANATION OF REVISIONS:

WORK ORDER RELEASES AND ACTUAL EXPENDITURES

195	Work Order Releases Month	Work Order Releases To Date	Expenditures Month	Expenditures To Date	195	Work Order Releases Month	Work Order Releases To Date	Expenditures Month	Expenditures To Date
JAN					JAN				
FEB					FEB				
MAR					MAR				
APR					APR				
MAY					MAY				
JUN					JUN				
JUL					JUL				
AUG					AUG				
SEP					SEP				
OCT					OCT				
NOV					NOV				
DEC					DEC				

routed to engineering, accounting, and budget staff, which indicates release of the project for action.

5. The success of our cost reduction program lies in the fact that each project, as it is completed, is followed by the budget staff for independent audit and verification of actual results in relation to objective established for cost reduction. Exhibit C has provision for insertion of actual results, which are later embodied into a quarterly report that is circulated to all concerned.

We also wish to point out that the above procedure indicates cost reduction projects only. However, we also have capital projects involving expenditures for new product tooling, new facilities, replacement of machinery and equipment. These also follow the same process of preparation and approval as outlined above.

The technique outlined above has produced one very gratifying result. It has assured a continuous program with a backlog of items that is continually in excess of funds available and permits selective screening of high priority items which produce the maximum in cost reduction.

In conclusion, we submit that a program of cost reduction as outlined above will produce effective cost control and will prove to be the remedy that will preserve the financial health of a going business in a competitive economy. Each month as the score is tallied management need not look forward with troubled anxiety, but can, with assurance, review an operating picture that confirms in fact the realization of sound and well-planned objectives. The successful attainment is through implementation of forecasts and budgets with a continuous cost reduction programme. This is one of the essential ingredients that creates the healthy and vigorous growth characteristic of well-managed business enterprises.

FOR FURTHER READING

COST REDUCTION — Prescription for Tomorrow's Profits — A. M. Hartogensis, N.A.C.A. Bulletin, January 1953.

BLUEPRINT FOR COST REDUCTION — Factory Management and Maintenance, January 1954.

A COST REDUCTION PROGRAMME — P. W. Hoge, American Management Association, Manufacturing Series, No. 209.

ORGANIZED COST REDUCTION — R. E. Burton, American Management Association, Office Management Series, No. 133.

STRATEGIC AREAS IN COST REDUCTION — American Management Association, Manufacturing Series, No. 215.

REDUCING PRODUCTION COSTS TO A MINIMUM — L. J. Sorensen, N.A.C.A. Bulletin, July 1954.

TOOLS AVAILABLE FOR COST CONTROL AND COST REDUCTION — N. St. Peter, N.A.C.A. Bulletin, July 1954.

COST REDUCTION BY BRUTE FORCE — A. M. Hartogensis, N.A.C.A. Bulletin, November 1953.

COST REDUCTION TO HELP SMALL BUSINESSES — W. B. Edgar, N.A.C.A. Bulletin, March 1954.

COST REDUCTION — A. D. MacKay, B.Com., C.A., The Cost Accountant, August 1952.

EXHIBIT C

WORK ORDER D-57 W-

DESCRIPTION

COST SUMMARY			
	ESTIMATED	REVISED	ACTUAL
M			
L			
B			
T			
ESTIMATED BY			

DATE WRITTEN	DATE SET FOR COMPLETION	DATE COMPLETED	
BY		BY	

EXPLANATION OF COST REDUCTION

TOTAL GROSS ESTIMATED REDUCTION	ESTIMATED TOOL EXPENDITURE	ESTIMATED NET SAVING FIRST YEAR

	PART NUMBER			
	QUANTITY PER YEAR			
OBJECTIVE – LABOR	PRESENT UNIT HOURS			
	PROPOSED UNIT HOURS			
	TOTAL COST REDUCTION			
OBJECTIVE – MATERIAL	PRESENT UNIT COST			
	PROPOSED UNIT COST			
	TOTAL MATERIAL REDUCTION			

ESTIMATED EFFECTIVE DATE	REVISED DATE
ESTIMATED BY	VERIFIED BY

ACTUAL RESULTS	UNIT LABOR HOURS			
	UNIT MAT'L COST			
	TOTAL COST REDUCTION			

GM-1 FOLLOW-UP

INSTRUCTIONS *If objective is cost reduction, TWO COPIES retained by AX and ONE COPY routed to GM-1*

Management Planning and Control Through Budgets . . .

By R. D. Richardson,
Financial Manager, Apparatus Division, Canadian General Electric Co.

In Canadian General Electric, a programme of decentralization has emphasized the need for comprehensive budgetary control, essential to the management of the smaller, self-contained units within the framework of overall corporation operations. In this article, Mr. Richardson has chosen the Appliance Division as the subject of a case study on budgeting to plan, co-ordinate and measure operations.

OPERATING "from the book" and "flying by the seat of your pants" are two ideomatic expressions used in Canadian General Electric. Operating "from the book" denotes the use of a planned, systemized and formalized approach to operations and budgetary control is one of the most important chapters in this book. "Flying by the seat of your pants" is the direct antithesis to operating "from the book". We are said to be "flying by the seat of your pants" when there is no definite plan of operation.

When C.G.E. carried out a recent major reorganization which decentralized Company operations into a number of units very closely resembling self-contained businesses, a heavy accent on budgetary control quickly developed. The need for an industrial enterprise to operate "from the book" seems to increase with the degree to which responsibility is delegated.

Unless a formal plan of action was established for each of the decentralized components and unless objectives were set up and performance measured against these goals, overall Company management would soon lose control of its individual units.

Because responsibiilty for profit was delegated to these separate businesses, budgetary control became "Chapter No. 1 in the book".

In a sense, budgetting could be said to have become an indissoluble part of the new organization itself. Once top management turns to operating "from the book", there is no alternative to each of the next succeeding levels of management and supervision doing likewise.

Everything possible had been done to use an enlightened approach to budgetary control for many years prior to decentralization. There was, for example, no controversy in C.G.E. as to whether the budget was a plan of action or a tool for control, or whether the budget must be an entirely realistic forecast or should contain a "target" element. It had long since been concluded that a good budget was the best possible combination of all of these things.

However, after decentralization, there was only one master or business budget. Although this master budget was as far as possible

based upon the budgets for all of the various activities and functions, it was difficult to effect the desired degree of integration across a span as large as the Company and under conditions whereby the key functions of marketing and manufacturing reported separately all the way up to the top executive. Some good sales and sales expense budgetting was done. Some good production and manufacturing cost budgetting was done. But it was most difficult to bring together all factors in a profit budget, which represented the agreed upon forecasts and objectives of those responsible for operations.

In 1951, before reorganization, a critical self-searching showed up a number of chinks in C.G.E.'s armour, such as that twenty-two managers reported directly to the President; the spans of control of functional responsibilities delegated were too broad as for example, manufacturing with 11 plants; it was most difficult to establish clear cut accountabilities for results and profit responsibility really existed only at the President's level.

These conditions were the same factors which made it difficult to use effective budgetary control. Top management had difficulty in operating "from the book" because it was too hard to get the book written.

With decentralization, some important changes were made and these changes created both the need and opportunity for better budgetary control.

Instead of 22 — only 10 persons reported to the President, profit responsibility and the co-ordination of the basic functions of engineering, marketing, manufacturing, finance and relations was decentralized into 6 divisions and then into 15 departments, thus greatly reducing the span of control of any functional manager and enhancing the opportunity for measuring results.

The fundamental, alone, of locating all of the basic functions together, with each reporting to a common head, became a tremendous factor in improved budgetting.

The G.E. Company had, of course, previously decentralized their U.S. operations and had developed the budgetting techniques required for the product business form of organization. It was most helpful to C.G.E. to be able to use the standard system in effect throughout the General Electric organization.

What lessons have been learned in C.G.E. after two years of intensified budgetary control activity? The following is a resume of the points which appear to stand out as being essential to the success of any budgetary control system.

Organize a Budget Program

The success of budgetary control activity will in large measure depend upon the skill with which a budgetting program is organized.

Financial people can hardly advocate a planned and systematic approach to operations and then themselves fail to provide a sound budget system for use within a well organized program.

Practically all supervisors in all functions will participate in some degree. A set of clear budget instructions should be prepared. All participants should be instructed in writing. A time schedule for completion of each step in the budgetting process is essential. This should be issued to all concerned and a follow-up procedure instituted.

While the program approach requires considerable time and effort, as one C.G.E. financial man put it, "who is going to buy the principle of planned, systematic operations from a sloppy salesman?"

Use Budget Specialists

Historically, C.G.E. had co-ordinated its overall budgetting activity from the Company's General Accounting or Corporate Accounts area. This did not change with reorganization. The reason for this is that the Corporate Accounts area is in the best position to analyze and verify budget submissions which are to be consolidated into Company totals. Over a period of years a background of what might be termed "basic economic knowledge" concerning the Company has been built up in the Corporate Accounts Department. This knowledge has been used repeatedly to verify and check the consolidated results of many individual and separately prepared budgets with a wisdom which at times can only be described as uncanny.

In decentralized components, however, both budgetary system work and budget co-ordination have of recent years been assigned to full time specialists or to positions able to devote a major portion of their time to budgetting.

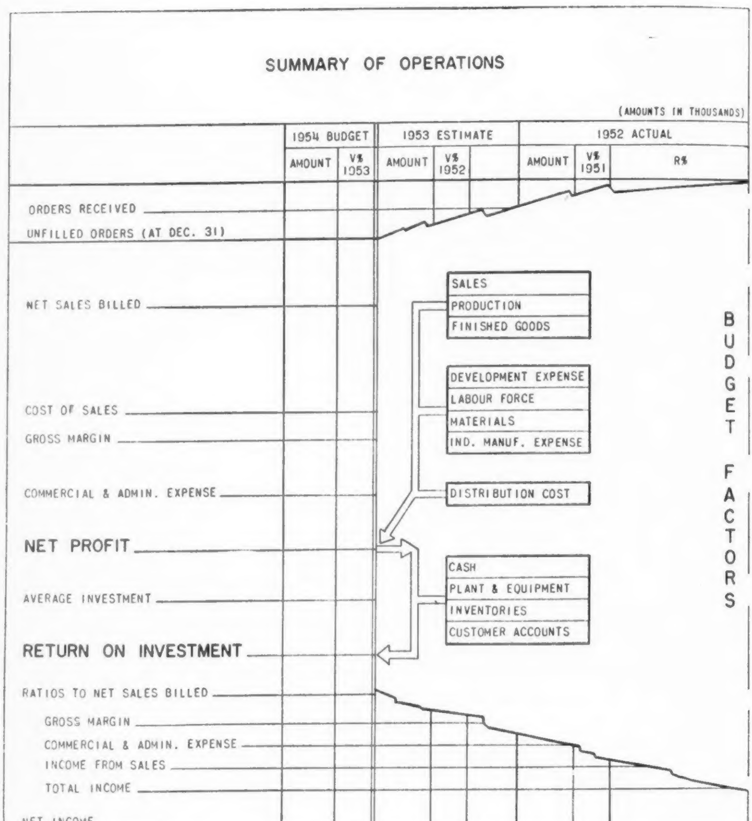
Although both general and cost accounting functions must participate extensively in budget preparation, it is felt that the overall co-ordination of budgetary control activity should not have to vie for attention with other vital day-to-day accounting responsibilities. Indications are that budget specialists are here to stay in C.G.E., at least until techniques have been refined and a large measure of budgetting skill and knowledge established throughout all of the functions of the organization.

Tie-in All Budget Factors with Profit Objectives

While greatly improved means for collaboration between the functions was a prime factor in improved budgetting, there was something akin to magic in having all of the jigsaw pieces fit together to spell the word "profit".

The budget summary of operations form (Exhibit I) shows how this schedule largely governs and controls all budgetting activities for the simple reason that it brings all budget factors to culmination in profit and return on investment objectives.

EXHIBIT 1


SUMMARY OF OPERATIONS
(AMOUNTS IN THOUSANDS)
1954 BUDGET
1953 ESTIMATE
1952 ACTUAL
AMOUNT
V% 1953
AMOUNT
V% 1952
AMOUNT
V% 1951
R%
ORDERS RECEIVED
UNFILLED ORDERS (AT DEC. 31)
NET SALES BILLED
COST OF SALES
GROSS MARGIN
COMMERCIAL & ADMIN. EXPENSE
NET PROFIT
AVERAGE INVESTMENT
RETURN ON INVESTMENT
RATIOS TO NET SALES BILLED
GROSS MARGIN
COMMERCIAL & ADMIN. EXPENSE
INCOME FROM SALES
TOTAL INCOME
NET INCOME
SALES
PRODUCTION
FINISHED GOODS
DEVELOPMENT EXPENSE
LABOUR FORCE
MATERIALS
IND. MANUF. EXPENSE
DISTRIBUTION COST
CASH
PLANT & EQUIPMENT
INVENTORIES
CUSTOMER ACCOUNTS
BUDGET FACTORS

When all factors affecting profit are placed side by side, made to tie in each with the other and combined to produce a profit result, the accuracy of individual budget factors is either verified in the process of building up to the profit budget or can be readily checked.

However, the main advantage of the budget tie-in with profit objectives goes beyond figure mechanics and reaches right to the very heart and purpose of budgetary control. Briefly defined, the budget is a plan. The budget for a business enterprise can only be a comprehensive plan, if the program of operating performance is brought together in profit and return on investment objectives.

A business may well change its planning on such factors as sales, advertising expense, manufacturing cycles, product features and so on, not once but several times before finalizing the budget, in order to ensure a plan of action predicated on acceptable profit objectives.

Tie-in All Budget Factors With Each Other

Not only is it desirable to tie-in budget factors with profit objectives, it is also essential that budget factors are tied in one with the other. It may seem unnecessary to stress something so obvious as that the manufacturing expense budget must be predicated on the production budget, and the production budget must be predicated on the sales budget, and so on; but failure to ensure this tie-in has upset some otherwise excellent budget work.

The illustration of the "tie-in with profit" principle (Exhibit I) can be used to show the more important tie-ins of budget factors with one another. For example, it is essential that budgets for sales, distribution costs and customer accounts tie-in — so must sales and production — so must production, labour force and materials — so must labour force and indirect manufacturing expense and so on.

Tie-in Budget with Regular Financial Periods

In C.G.E., perhaps the dominant factor in the determination of the length of the budget period is conformity with the regular accounting periods.

Reporting actual performance against budget is an integral part of budgetary control. The C.G.E. budget period is one year in length because its reporting system is based on a calendar year. However, it is also twelve individual months in length. This does not mean that sales, production and expense forecasts are made for the full year and then merely divided by twelve. Budgets are prepared for each individual month and when consolidated give the year's total. (Exhibit II).

A few years ago most accountants would have been very much opposed to budgetting by monthly periods, primarily because of the added compilation work. However, monthly budgetting turned out to be much less onerous than anticipated and the benefits far beyond their expectations because the monthly breakdown encouraged accuracy and

interest in budgetting, provided best possible budgets for comparison with actual performance and assisted in analyzing and verifying budget submissions.

The Sales Budget Sets the Pace

It is a homely and simple truth that profit cannot be realized until sales are made. There can be no doubt that the sales estimate is the most important of all factors in the budget. Any enterprise which attempts to chart its course without a carefully prepared sales budget is truly "flying by the seat of its pants".

Strangely enough, despite the importance of the sales budget, there are some businesses which contend that sales cannot be predicted. Although often difficult, it should be possible to forecast the total market and to estimate or even measure the extent of participation in such market. One way of doing this is shown on Exhibit III.

At first glance this chart might give the impression that a complicated sales budget system was being demonstrated. However, this merely illustrates the principle of reaching a difficult sales budget from the different viewpoints, perspectives and motivations of many different people, each armed with the same basic information.

The Production Budget Sets Costs

While the sales budget sets the pace, the production budget has the greatest direct impact of all budget factors upon costs.

It will be noted that when the sales budget is referred to, the words forecasting and estimating are ever present. Terminology changes when the production budget is dealt with. Seldom are the words estimate or forecast used in reference to the production budget, but rather we find the words schedule, plan, program, in common use. This illustrates a significant difference between the sales and production budgets. While both are important co-ordinating factors, the production budget is a much more definite plan and is also much more of a control device. It is, in fact, an integral part of the production control system.

Failure to establish a sound production budget from which accurate production scheduling can proceed is tantamount to a railway operating without a good timetable.

Make the Expense Budget Help to Control Costs

Shoud the expense budget contain an element of expense reduction target? This is one of the more controversial aspects of the engrossing problem of expense budgetting.

The purist will argue that the budget must be entirely realistic and contend that if it cannot be established based upon accurate standards, estimates should be on the safe, rather than tight side. They contend that there is no place in the budget for the target element and if it is desired to set up targets for expense reduction, this should be handled through accounting control media other than the budget.

EXHIBIT 2

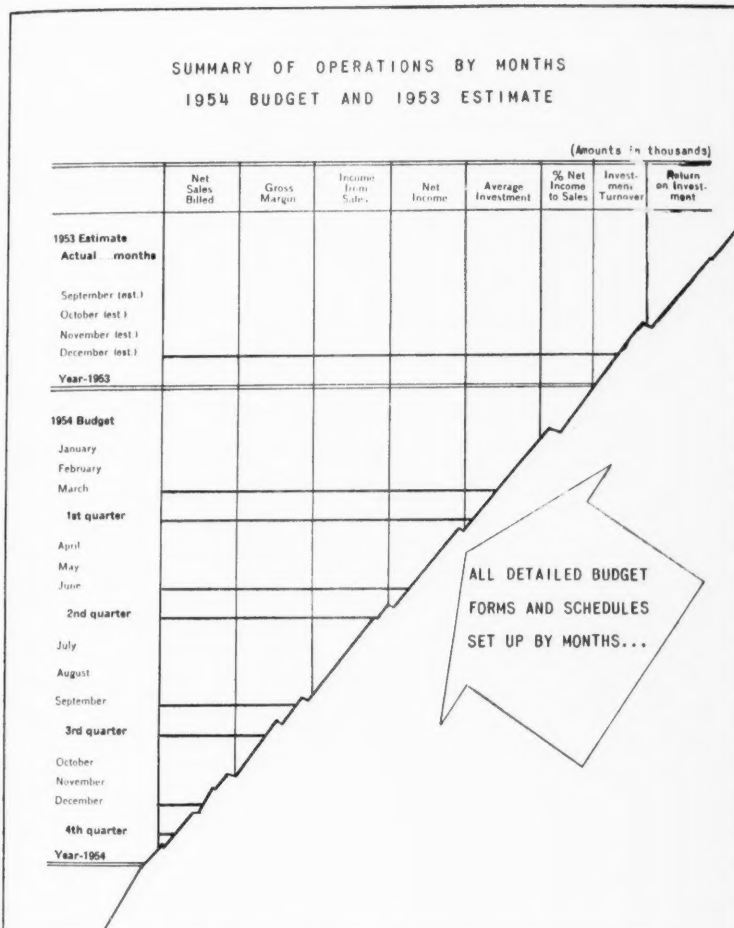
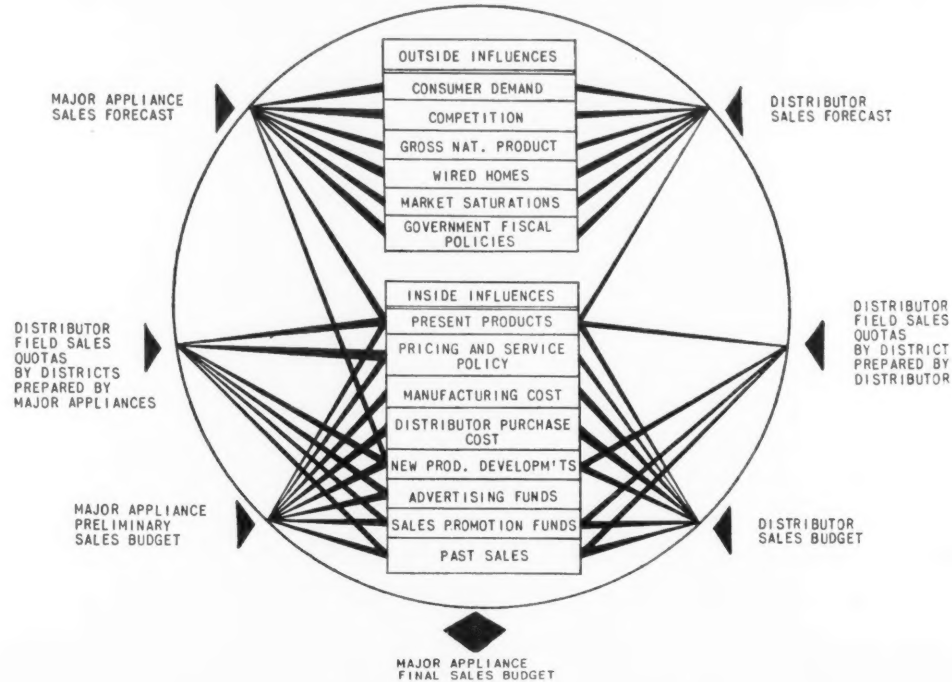

SUMMARY OF OPERATIONS BY MONTHS
1954 BUDGET AND 1953 ESTIMATE
(Amounts in thousands)
Net Sales Billed
Gross Margin
Income from Sales
Net Income
Average Investment
% Net Income to Sales
Investment Turnover
Return on Investment
1953 Estimate
Actual ... months
September (est.)
October (est.)
November (est.)
December (est.)
Year-1953
1954 Budget
January
February
March
1st quarter
April
May
June
2nd quarter
July
August
September
3rd quarter
October
November
December
4th quarter
Year-1954
ALL DETAILED BUDGET FORMS AND SCHEDULES SET UP BY MONTHS...

EXHIBIT 3

SALES BUDGETTING BY COUNTER CHECK



Most in C.G.E., however, take the view that true realism recognizes the great capacity for people to improve in effort and efficiency under proper stimuli. They do not subscribe to the "two sets of books" procedure because of being too costly and also being risky from the morale angle, if operators know that their goals are not synonymous with the overall objectives. Thus, when it is difficult or impossible to establish exact measurements, the opporunity is usually taken to lean towards reducing the amount budgetted below that of the going rate.

Two rules always govern the inclusion of the target element in the expense budget.

(1) The inclusion must be reasonable and such that if it is not achieved, the basic overall plan of operation will not be seriously affected.

(2) The inclusion must be either volunteered or unreservedly agreed to by the individual held accountable for the budget.

While the target approach is somewhat difficult to deal with, it enhances the budget as a control tool and is well worth the additional time and effort.

Build Budget Up — Then Break It Down

Throughout, C.G.E. budgets are started in the lower levels and built up towards a consolidation point. This is so primarily because it is virtually impossible to budget for C.G.E.'s wide range of product activity from a central point. In addition, the build-up method is conducive to active participation in budget formulation by all functions at all levels of the organization. If, when all budget submissions are consolidated, the final result is not in keeping with broad objectives, the budget is then analyzed by breaking it down into the various budget factors.

Budgets Must Be Approved

It is esssential that well-defined budget approval policies exist at the various levels of the organization. The one approval policy which stands out as being most important is that the top executive should approve more than just the overall profit or return on investment budget. He must also approve the separate budgets for the key factors such as sales, production, expenses, inventory turnover, etc.

The part played by the chief financial man with respect to budget approval is most important. Much emphasis has been placed of recent years upon the importance of the financial man not making decisions with respect to operations. While it is essential that financial men make it clear that they understand their role is not one of decision-making, they must not fail in their responsibility to the business to outspokenly provide the advice and counsel which they are in a preferred position to provide, concerning approval or revision of the budget.

One of the primary responsibilities of the financial function is to ensure that when the chief executive approves the budget, he does so with the benefit of more than some neatly arranged sets of figures.

Allow Time to Budget

One of the most prevalent shortcomings of budget programs is the tendency to allow barely enough time for preparation and insufficient time for review, discussion, revision and final approval.

Don't Change the Master Budget

It is generally agreed that it is usually inadvisable to change the master budget. One change leads to another and it is both costly and confusing to reissue a complete set of budget schedules. When thinking of the budget as a target, the somewhat facetious point can be made that any budget can be realized if it is changed to agree with actual results.

It must be emphasized that the "no change" advice applies to the master budget and not to certain of the budget factors. It is essential that the budget system provides for revision of such key factors as sales and production, since the plans for these must as closely as possible follow changing conditions. These, however, can be changed within the budget system without revisions being necessary to the master budget, although there is the disadvantage that the new sales and production budgets then cease to be tied-in to the master budgets.

Participation Is the Key to Success

The success of a budgetary control program depends upon participation by the entire organization.

However, participation must mean more than just taking part with an attitude of resignation towards a distasteful chore. There must be widespread conviction that the budget is a productive factor in the operation of a modern business enterprise. And most important, the budget must be recognized as an invaluable tool for each individual manager and supervisor to use to help him do his job.

Too often a cynical attitude has caused an otherwise well conceived program to fail miserably. Lack of understanding and suspicion of the purposes and motives of budgetary control can destroy any hope of teamplay and co-operation so essential to the program.

What can be done to ensure an enthusiastic and positive approach throughout the organization? Perhaps the following three aids to co-operation are among the more important.

(1) Supervision must be convinced through careful explanation that the budget is a plan of action and a tool for control not only for use by the overall Company, but for the use of each supervisor in his own work area.

(2) Patient and thorough instruction must be given in the budget system itself. Budgetting is not an exact science, let's admit it and explain why. A barrier of confusion and misunderstanding must not be allowed to stand against co-operation.

(3) While measurement of actual performance to budget is an integral part of budgetary control, target elements included in budgets must be either volunteered by the supervisors themselves or if suggested to them, accepted willingly.

The above would appear to be the main "budgetting points to remember" which are summarized on Exhibit 4. However, a few words should not be amiss concerning the importance to industry of budgetary control.

Budgetary control is not exactly the type of activity about which poems are written. This is no reason to consider it and other accounting or financial activities as non-productive, unimaginative and uncreative, befitting only our dullest words. This does not help to endear it to anyone and perhaps it is time it got a lift with a few more glowing terms.

Both Canada and the United States are today experiencing an adjustment in their economies. There is every reason to feel that this is nothing more than a return to fully competitive conditions. For the United States this merely means some harder hitting and sharper fielding to stay on top.

However, it is not enough for Canada to try to hold its position in triple A ball. Canada must make its move to get into the big leagues.

The task is tremendous. It is a challenge of producing at an ever increasing rate; earning better profits to spend more for building; training new workers in an ever widening circle of making and building; and through it all, competing every day with a resurgent world in which only the most proficient nations will prosper.

All must play their part — the civil service, the church, the finest educators. But the vital job belongs to industry put hard to work by risk capital, bold planning and daring building. But growth alone is not enough. The real challenge is the achievement of competitive efficiency which yields to none.

Can we then, even if just for the occasion of a gathering of accounting men, name budgetary control as an activity of considerable importance?

Budgetary control both charts the course and helps the helmsman steer. Of all the separate administrative tools, budgetary control ranks with the most important and it will be a vital factor in industry, meeting its challenge. I do not think it is stretching matters too far to suggest that using it successfully in the coming years means much to Canada.

EXHIBIT 4

BUDGETTING POINTS TO REMEMBER

1. ORGANIZE A BUDGET PROGRAM.
2. USE BUDGET SPECIALISTS.
3. TIE-IN ALL BUDGET FACTORS WITH PROFIT OBJECTIVES.
4. TIE-IN ALL BUDGET FACTORS WITH EACH OTHER.
5. TIE-IN THE BUDGET WITH REGULAR FINANCIAL PERIODS.
6. THE SALES BUDGET SETS THE PACE.
7. THE PRODUCTION BUDGET SETS COSTS.
8. MAKE EXPENSE BUDGETS HELP TO CONTROL COSTS.
9. BUILD THE BUDGET UP — THEN BREAK IT DOWN.
10. THE BUDGETS MUST BE APPROVED.
11. ALLOW TIME TO BUDGET.
12. DON'T CHANGE THE MASTER BUDGET.
13. PARTICIPATION IS THE KEY TO SUCCESS.

FOR FURTHER READING

PLANNING AND CONTROL THROUGH BUDGETING — F. L. Esposito, N.A.C.A. Bulletin, March 1954.

PROGRAMME PLANNING AND CONTROL THROUGH THE BUDGETARY PROCESS — W. R. Harton, Jr., Accounting Review, July 1954.

PROFIT PLANNING AND BUDGETARY CONTROL — P. M. Williams, Accountants' Digest, June 1947.

BUDGETING AS A MEANS TO CONTROL MANUFACTURING COSTS — J. W. McIntyre, Cost and Management, December 1953.

FINANCIAL FORECASTING AND BUDGETARY CONTROL — W. H. Hopkins, Cost and Management, October 1953.

BUDGETS ARE FOR PLANNING, CO-ORDINATION AND CONTROL — H. C. Heiser, N.A.C.A. Bulletin, October 1951.

BUDGETING FOR PROFIT — H. Kirkham and F. Wolsenholme, The Cost Accountant, June 1951.

BUDGET CONTROL AND ITS RELATION TO BUSINESS FORECASTING — F. R. Fletcher, Cost and Management, March 1931.

Developing the Handbook for Accounting Supervision . . .

By Franklyn Lambert,
Controller,
Housing Authority, Columbus, Ga.

The objective of the handbook or manual is said to be the improvement of performance of the accounting function. Toward this end, the author pinpoints the essential requirements which must be met if the manual is to be effective and easily understood by personnel at all levels of responsibility.

THE Chief Accounting Officer of the business organization is generally faced with the fact that Department Heads and Branch Managers are admittedly deficient in the knowledge and abilities necessary to willingly assume the responsibility for the direct supervision of accounting functions performed by personnel within the Department or the Branch Office.

This is particularly true in the retail store of a chain merchandising organization. The Store Manager is selected on his ability to move the merchandise. A Foundry Foreman is selected on his ability to produce castings notwithstanding his lack of comprehension of the necessity of seeing that his clerk properly maintains the time and material records, cost reports and other clerical work.

Management has consistently, and logically so, favoured the prerequisites of Salesmanship, Production, Engineering, and other technical factors over the need for supervisors with at least basic concepts of accounting theory and accepted practices.

Thusly, the Chief Accounting Officer cannot demand that personnel in the top position at the Branch or in the Factory Department be willing and able to independently supervise the accounting functions, however elementary. There is the inescapable problem that the Chief Accounting Officer must devise means and methods of supervising the accounting operations himself. He cannot, in defiance of the physical laws, occupy two places at the same time. It is the employee's need for immediate and conclusive instruction that the Chief Accounting Officer must satisfy or consequently tolerate the perplexing delays and difficulties of erroneous transactions, inaccurate records, unhappy personnel and finally the unsympathetic criticism of Management.

How many excellent clerks and cashiers perform creditable work so long as they have the reassuring presence of someone who knows the answers and can supply them as the questions occur? Without this reassurance many of these employees are prone to become upset and perplexed by the likelihood of bobbling the ball on some routine transaction when an unusual aspect turns up. There are other em-

ployees who fear they will betray themselves by asking questions. When a Supervisor either does not supply the correct answer or when he embarrasses an employee in order to protect himself, irreparable damage is done to the organizational structure.

The Answer — Immediate, Concise, Correct and Conclusive

Any solution to our problem should also provide self-reliance and dignity to the accounting clerks who are to perform the routine operations. In other words, we must give them the answers to the anticipated frustrating questions which can be foreseen by the Chief Accounting Officer if he will take himself, in his thinking, to the desk of the employee, and if he lives the job long enough to be thoroughly familiar with the employee's needs. Once this is done, the Chief Accounting Officer can advise the employee on the vast majority of the questions by preparing a Handbook. The Handbook can be prepared to cover the accounting requirements of several Branches and even more than one Department where the functions are similar but not necessarily identical.

The Chief Accounting Officer can best attend the accounting functions in the Branches, Stores and Departments through such a Handbook, provided; the procedure is designed, proven and authorized in keeping with the needs of the Accounting Department but instantly considerate of the character of the Department, Store or Branch in which it is to be used.

By design, it is meant that the Handbook can be written and styled to the employee level. The loose-leaf type is perhaps the easiest of all forms of Handbooks to produce and to maintain. It offers cheap preparation with easy correction and supplementation. The style of the writing is best when it is simplest. The Handbook is not the medium for the Chief Accounting Officer to manifest eloquence and mastery of the technical terms of accounting and business. Handbooks are not created to be beautiful but are created because they are needed and their use is rewarded. As with any reading matter however, the more attractive is the Handbook, the easier it will be to induce the personnel to study the outlined procedures.

To say that the Handbook must be proven is to say that it must be, within its scope, foolproof and error free. The employee's regard for the Chief Accounting Officer may be fashioned by the contents of the Handbook. The employee will discern that the Handbook was prepared by one with definite understanding of his problems. What better medium could the Chief Accounting Officer use to really get close to the employees?

We must not assume that the Handbook's attractiveness and its useful content will suffice in solving the accounting problems. It also must be authoritative. The Handbook should be forwarded by the highest practical Management Official and the employees should be therein advised that the procedures and methods shall be carried out.

The form of this authorization may be as follows:

FOREWORD

Our company has continually endeavoured to provide better methods to do our jobs at every level. You are all aware of the consequences of handling a customer's account poorly. We do not like to be on the defensive in customer relations. It is our desire to have our business performance at par with our products. The Comptroller has been commissioned to prepare this Handbook for your use in our Retail Stores. You will note that this is not a book on business generally; it is, on the other hand, a simple compilation of our own requirements. Nor is the Handbook the sole labour of any one person since all of you have contributed from time to time to the development of this procedure and system. You will find it a useful reference and guide. It is with genuine interest in you and your position that I endorse the Handbook and extend every good wish for your success in carrying out this procedure.

(S) JOHN D. DOE,
Vice-President.

It's In the Book

Let's look at the Table of Contents of *Handbook for Cashiers* used by the six Project (Branch) Offices of The Housing Authority of The City of Columbus, Georgia. For analogy, think of the Rental Charges as Retail Sales and of the Tenant as the customer. The Cashier, in this case, is a high school graduate with no other business training and who serves as the Project Manager's (Branch Manager's) Secretary. The Project Manager is responsible for customer accounts, maintenance of the property, tenant (customer) relations, integration of the Project with the community and public relations. This is mentioned to indicate that the accounts receivable bookkeeper cannot be a purely accomplished accounting clerk. The Addenda indicated as being included in the Handbook is the method used for providing such information as price schedules, calculation charts, specimens of properly completed forms or other beneficial data that will be constantly required by the employee for whom the Handbook is prepared. Note the arrangement of the subject matter in the Table of Contents, EXHIBIT I, by topic and sub-topics enabling the Cashier to immediately locate the page of the Handbook dealing with the question of the moment.

EXHIBIT I

HANDBOOK FOR PROJECT CASHIERS (Revised)

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Include Fundamentals

Until developed, the proposition of writing instruction to govern the handling of "Cash" seems difficult. How do we go about telling the Cashier what to do with money? When to make deposits and for what amounts? Can she cash cheques? Does she know what to look for on the cheques offered to her as payment? What does she do if the cash counts short? Elementary! Yes, it is to you — reader, but it's complicated procedure for the new employee and the inexperienced high school graduate. Let's look at the chapter on Cash, EXHIBIT II, and notice the simple language and the completeness of the instruction. Do

not overlook that the importance of the subject is clearly emphasized. This chapter tells the Cashier how to handle her cash to her own satisfaction.

EXHIBIT II

HANDBOOK FOR PROJECT CASHIERS (Revised)

II. CASH

COLLECTIONS AND DEPOSITS

A receipt shall be issued for all collections received. Collections for rental account shall be shown on the receipt as "Cash" while collections of Security Deposits shall be shown on the receipt as "Security Deposit Paid" or as the bookkeeping machine requires. The Cashier issuing a receipt shall initial the receipt before passing it to the tenant. Instruction for correcting posting errors involving Cash are given in Chapter III under the heading "Correcting Posting Errors on Tenant's Ledgers". Each Cashier will be furnished a Change Fund which shall be used only to make change and to reimburse vacated tenants for *Net* refunds as indicated on the statement-receipt. When no other funds are available at the Project site, the Cashier's funds in the form of Change Fund or Petty Cash Fund may be used by the Manager for small incidental purchases provided a receipted invoice or petty cash receipt is obtained from the payee. When refunds are made in cash, a receipt from the tenant must be obtained and placed with the remainder of the Change Fund to establish accountability. If receipts are in transit to the Central Office for reimbursement a copy of the letter of transmittal shall be retained. The Cash in the Cashier's drawer together with signed statement-receipts from vacated tenants and petty cash receipts or receipted invoices must at all times equal the Fund charged to the Cashier plus the receipts issued for the day up to the time of count; provided however, that any part of the day's collections may be taken from the cash drawer and placed in the safe for reasons of security.

Cheques received for payment of tenants' accounts should be payable to The Housing Authority of the City of Columbus, Georgia, and cheques that are accepted when payable to others are the Manager's responsibility. If cheques are drawn to another person, the correct endorsement must be made before they are accepted by the Cashier. All cheques sent to the bank with the deposit slip shall be endorsed "For Deposit only to the Account of The Housing Authority of the City of Columbus, Georgia, Administration Fund, Project GA-4-etc." and a rubber stamp endorsement placed underneath with the Housing Authority name. The Cashier should be certain that all cheques accepted for payment of tenants' accounts are dated on or before the day credited to the account, that the cheques are signed, and that all prior endorsements are adequate.

Cash shall be reconciled against the day's receipts at the close of the day's business. Then, a deposit slip for each project shall be prepared in duplicate or triplicate (at the Manager's discretion) for the correct amount of the day's receipts. After re-checking the deposit slip and cheques, the slips together with cheques and the cash indicated thereon shall be placed in an envelope and locked in the safe until the Manager asks for the deposit.

EXHIBIT II — Continued

HANDBOOK FOR PROJECT CASHIERS (Revised)

II. CASH

CASH OVERAGE AND SHORTAGE

The Manager or his commissioned delegate shall deposit the previous day's collections in the bank, seeing that the bank teller accepts and receipts the duplicate deposit slip to be mailed by the bank to the Central Office.

Any cash overage or shortage shall be reported to the Project Manager as soon as the amount is determined. If the amount of the difference is nominal, the Project Manager shall see that a receipt is prepared for any shortage and that the Cashier signs the receipt, then, the Project Manager shall immediately approve the receipt by signature. The receipt shall thereafter be acceptable as cash in the Petty Cash Fund until reimbursement is requested. In the case of cash overages, a debit memo shall be prepared in the manner prescribed for shortage receipts and placed in the cash drawer along with the amount of the overage. Consequently, the amount deposited in the bank for a day's collections shall always be equal to the amount indicated as collected on the Daily Statement of Operations.

Any shortages or overages in excess of $10.00 shall be reported by the Project Manager to the Central Office as soon as the amount is determined.

The signed receipts for shortages and the debit memos for overages shall be submitted to the Central Office along with the next request for other reimbursements. At such time, the Central Office will draw a cheque deducting the total debit memos for overages and paying the amount of shortage to the Project Office Petty Cash Fund.

The Project Manager and the Central Office will insist on the most careful handling of cash in transactions, and will be adamant that all measures for safety and accountability be enforced.

It is here pointed out that conviction for the misuse of funds or the misrepresentation of facts in connection with the public housing program carries dire penalties imposed by the Government of the United States.

Be Specific

We wish to show next how specific the Handbook can be in prescribing detail procedure for operation of the Accounting Machine (applicable to any available type of Register or Poster). EXHIBIT III, is an extract from the chapter on the Daily Statement of Operation. Consider that the Cashier is facing a machine with a dozen code keys, a bank of figure keys, and an added bank of keys for use in printing account numbers. In our case the machine involved is the National Cash Register Company's Series 2000 Accounting Machine. We are here eliminating such Cashier's questions as "What key do I use to post a charge of $.50 for a key sold to the Tenant?" The Project Cashier at location Project Ga 4-6 does not concern herself with columns 1 and 3 as shown in EXHIBIT III.

EXHIBIT III

HANDBOOK FOR PROJECT CASHIERS (Revised)

V. CLOSING THE DAY'S BUSINESS — THE DAILY STATEMENT OF OPERATIONS (Continued)

Ga-4-2 and 4-5	Projects and Keys 4-6 and 4-8	4-1, 4-7 and BV	Transactions Posted
Paid	Cash	Cash	Use *Only* for cash received to be applied to tenants' rental account.
Dwell Rent	Dwell Rent	Dwell Rent	Use *Only* for all charges to tenants' accounts for rent.
Deposit	Sec. Dep.	Sec. Dep.	Use *Only* for Security Deposit collections.
Refund Sec. Dep.	Refund Sec. Dep.	Refund	Use *Only* for posting Security Deposit refunded (but not for Security Deposit transferred to rental account).
Refund To Tenant	Refund Rental A/C	Misc. Chg.	Use for posting Refund of Rental Account to Rental Ledger.

SOME ITEMS DELETED IN THIS EXHIBIT FOR BREVITY

Cemmercial Rent	Penalty	Bookkeeping Charge	Use for penalties for late payment, transfers from unit to Unit and Court Dispossessory Cost.
Sundry Credit	Move-Out Credit	Misc. Credit	Use for posting Move-Out Credit or other rental credit to account.
Sundry Credit	Trans. of Sec. Dep.	Misc. Credit	Use for credit to rental account for Security Deposit transferred.
Sundry Credit	Misc. Credit	Misc. Credit	Use for posting any credit where no other key is provided.

Self-Confidence Gained

Looking at EXHIBIT IV from the chapter on *Checking the Cashier's Work,* we have given the Cashier the usual methods for her use in proving her own work. If she is reasonably conscientious she will test her reports before they are submitted to the Chief Accounting Officer where they will be meticulously checked before being further processed to the general books.

EXHIBIT IV

HANDBOOK FOR PROJECT CASHIERS (Revised)

VIII. CHECKING THE CASHIER'S WORK

The system established for accounting for rents and other revenue embodies many cross-checks, however accuracy depends to a great extent on care being exercised in each transaction.

The Cashier should always check her typed documents and reports before they are submitted.

The recorded trial balance of accounts is the best single check to determine that the accounts are in balance. Perhaps the most frequent reason for the tenant ledger to get "out of balance" is the picking up of the wrong old balance, then follows posting charges instead of credits and contrawise entries. The balance of all tenant rental ledger cards (totals) should at any time equal the total of Column 17 of the Recapitulation Sheet. In like manner the total of Security Deposit balances should equal the total of Column 20 of the Recap Sheet.

Where possible, it is beneficial to have another person check the Daily Statement of Operations before it is dispatched to the Central Office.

Column M of the Reconciliation of Rent Roll-Analysis of Dwelling Rent Schedule should compare with Column 1 of the Recapitulation Sheet. If these totals are not equal, the incorrect amount of dwelling rent has been posted in error on the Rent Roll-Analysis of Dwelling Rent Schedule.

Column J of the Reconciliation of Rent Roll-Analysis of Dwelling Rent Schedule can only be checked by an examination of all leases.

The cumulative net rent charged at any time should be the Rent Roll as of the last day of the preceding month plus any interim rents charged minus any dwelling rent credits.

The total Security Deposits charged (except where Security Deposit credit balances are charged off) as per the written requests for refunds to petty cash and tenant refunds should equal the total of Column 19 of the Recapitulation of Daily Statements of Operations.

The total of Security Deposits transferred to rental account as per the written requests for reimbursement to petty cash and the requests for tenant cheques should equal the total of Column 14 of the Recapitulation of Daily Statements of Operations at the end of the month.

The total rent refunded as per the requests for reimbursements to petty cash and requests for cheques to tenants should equal the rent refunded for the month as totaled in Column 7 of the Recapitulation Sheet.

What Does Accounting Want?

Now we get down to brass tacks on just what the Accounting Office wants from the Branch Office. EXHIBIT V, Schedule of Reports to the Central Office, tells what is wanted, when it is wanted and to whom it is sent. Also, typing requirements are indicated.

EXHIBIT V

HANDBOOK FOR PROJECT CASHIERS (Revised)

X. SCHEDULE OF REPORTS FOR CENTRAL OFFICE

NAME OF REPORT	PERIOD	DATE DUE IN C.O.	NO. COPIES	SEND TO	TYPED?
Project Manager's Report	Mthly.	10th of Month	0 and 7	Director	Typed
Daily Statement of Operation	Daily	Day following date of	1	Chief Acct.	Machine Printed
Recapitulation of D.S.O.	Mthly.	Not later than 3rd of Month	1	Chief Acct.	Manual Ink
Reconciliaton of Rent Roll	Mthly.	Not later than 3rd of Month	1	Chief Acct.	Manual Ink
Trial Balance of Tenant's Rental and Sec. Dep. Accts.	Mthly.	Not later than 3rd of Month	1	Chief Acct.	Manual or Typed
Aging of Tenants' Accounts	Qtrly.	Not later than 3rd of Month	0 and 4	Chief Acct.	Typed
Monthly Occupancy Report (Baker Village only)	Mthly.	10th of Month	1	Director	Typed
Report on Families PHA-1227	Qtrly.	10th of Month	0 and 1	Occupancy Supv.	Need not be typed
Report on Re-examination PHA-1245	Qtrly.	10th of Month	0 and 1	Occupancy Supv.	Need not be typed
Report on Tenants PHA-1446	Qtrly.	5th of Month following Quarter	1	Occupancy Supv.	Need not be typed
Occupancy Report PHA-1235	Qtrly.	1st day of Month following Quarter	0 and 2	Occupancy Supv.	Need not be typed
Analysis of Sales and Services	Mthly.	Not later than 3rd of Month	1	Chief Acct.	Need not be typed

Project Offices should not delay one report until the others are ready to be released, since in many instances the Central Office can use the completed report.

The Finished Handbook

In the preparation of your Handbook, you will have provided the tools for a good job. You have superseded the supervision of many employees with the supervision of a single system. You have made the Chief Accounting Position what it should be. You will have gained in subtle fashion another prize — you have given the Branch Manager or Department Head a concise method for supervising routine operations that he formerly could not and did not care to assume responsibility for. Finally, you will have integrated the accounting operation with the other business activity and gained the respect of your employees. Management will recognize this achievement and the ultimate benefit will be a strengthened accounting operation.

FOR FURTHER READING

PREPARATION OF BRANCH OFFICE MANUALS — A. C. Ackerman, N.A.C.A. Bulletin, April 1952.

PREPARATION AND USE OF OFFICE MANUALS — E. H. Conarroe, N.A.C.A. Bulletin, June 1943.

MANUAL WHICH A CONTROLLER PASSED ON TO HIS SUCCESSOR — Accountants' Digest, March 1943.

ACCOUNTING PROCEDURE MANUAL — W. C. Madden, Accountants' Digest, March 1954.

INDUSTRY ACCOUNTING MANUALS TODAY — D. G. Mackenzie, N.A.C.A. Bulletin, July 1952.

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